

Print Outlook 2002

Explosive Growth of Information Is Major Force

by Dennis E. Mason, Mason Consulting

Print Outlook 2002 attracted a great many more attendees than Print Outlook meetings in recent years, providing testimony to the current concern about the status of the economy and its effect on the printing and publishing industries.

Attendees at Print Outlook 2002 heard from a broad range of industry observers and economists during the two-day session, and many regarded the meeting as one of the best in the 21 years the conference has been held. This report details information provided by several of the speakers.



Printing In a Digital World

Print Outlook 2002 attendees heard from two keynote speakers, each of whom provided observations of the current state of the industry and prospects for the coming year.

Keith Davidson—recently retired as the president of Xplor International and now an independent strategy consultant, speaker and writer—asked the group, as the title of his keynote presentation, *Is Traditional Print Adapting to the Digital World?* He began by responding to the question with a resounding “Yes!”—

adding that the challenge of answering this question requires looking at things in a different way. He continued by suggesting that the question must be asked in two ways: “First, what is the digital world?”, and second, “What is the printing industry?”

Assessing the dot.com phenomenon, Davidson noted that in March 2001, *Upside* magazine offered the following: “The Web is seven years old. What do you trust a seven-year-old with? Homework, Pokemon, and making peanut butter sandwiches.

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There are limits to what the Web can do for any business or person. A lot of companies failed because they couldn't do anything but fail—just like offline businesses.”

Speaking about how quickly the digital dynamic changes our environment, Davidson quoted Microsoft chairman Bill Gates, “In the decade ahead, I can predict twice the productivity improvement that we provided in the 90s.”

Noting that the exponential values of the digital economy continue to drive all industries, Davidson cited the comments of MAN Roland CEO Yves Rogivue about a recent poll conducted by his company, “It is encouraging that, despite the economic slowdown, printers realize that their best investment right now is in advanced technology.”

Urging attendees to adapt to the digital world, Davidson cited three important reasons for making operational changes:

- To enhance print production—especially high end print production;
- To implement and augment print procurement; and
- To digitally manage print production assets.

Davidson then listed nine factors which influence the printing and publishing industries directly:

- ① Digital will increasingly replace conventional.
- ② Digital will get faster, better, more flexible, and cheaper.

③ Color digital will accelerate at all printing speeds.

④ Print-on-demand will grow rapidly.

⑤ Print runs will get shorter.

⑥ Offset lithography will continue to become more automated.

⑦ Electronic printing will grow faster than conventional printing.

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⑧ Personalization will grow.

⑨ Self-adapting documents will become common.

Commenting on these rather pessimistic projections, Davidson noted that his scenario calls not for less paper, but for more. Still, he foresees a decline in paper-based leisure time activities such as newspapers, books, and magazines—despite that fact that more money may be spent on these activities. Davidson said demographic skews will affect print, especially as heavy print users begin to die off or consume less. For the first time in modern history, Davidson noted, the growth of print will no longer correlate with the growth in gross domestic product.

According to Davidson, more than just economic analysis is required to understand what is happening to the printing industry. While com-

menting that “...the paperless office is as likely as the paperless toilet,” Davidson observed that the explosive growth of information is a major factor in what is happening. Davidson told the group that the “new printer” in the digital age is not a printer. The new printer can work anywhere and be production ignorant. Service is now more important than price, and the ability to add individual value is critical. This is very empowering to the non-professional digital printer.

Economic & Political Dynamics

Jerry J. Jasinowski, president of the National Association of Manufacturers (NAM) was the second day keynote speaker. The NAM is the

largest trade association in the United States, with 14,000 member companies and 350 member associations across all industry sectors. His presentation was entitled *Will Economic and Political Dynamics Change Significantly in 2002?*

Jasinowski began by discussing a number of diverse trends that are important to the issues faced by industry in late 2001. According to Jasinowski, the latest economic reports are actually rather upbeat. Consumer spending and general economic activity was good in October and November, albeit driven in large part by zero percent automobile financing.

The purchasing manager's index also jumped, suggesting again that growth is much stronger than had been presumed. That, taken with the recent stock market movement, should be heartening, Jasinowski said. He cautioned, however, that the

picture is mixed. The overall picture for 2002 is basically positive, but sluggish and weak in many sectors.

Looking at the third quarter of 2001, Jasinowski noted that inventories were worked down, writedowns were taken, and the federal funds rate was reduced. All this was good—and then came the 9/11 terrorist attacks. Today, the NAM projects negative growth in the fourth quarter of 2001 at an annual rate of 2.4 to 2.5 percent. Consumer spending has stayed stronger than might have been predicted. Earlier in the year, high energy costs were a damper and overcapacity existed—and a million jobs were lost. Now, the overall trends are still negative. Investment spending (and, thus, advertising spending) is negative, as are profits. The manufacturing sector of the economy remains in recession. The inventory sell-off will continue.

Given the bad news, it may be difficult to envision growth in 2002 but, according to Jasinowski, inventories have been worked down and must be replenished. Gross domestic product growth can be expected to go from negative to positive, based primarily on auto sales. While few autos are being made today, the auto industry will need to begin manufacturing again soon. Jasinowski said that if the auto industry does not fall apart when zero percent financing is taken off, the economy may be stable, but this is risky. On the other hand, monetary policy is firmly in control, and the rate cuts have made a contribution to what could have been a disastrous economy. He told the crowd that an increase in government spending could offset the overall negative economic climate.

Jasinowski characterized the current economic situation as “...the first *business recession* in maybe 20 years”—noting that other recent

downturns have been *consumer recessions* caused primarily by reluctance of consumers to spend. He also noted the current reduction in energy prices stands to be a major force in improving the economy.

Adapting to Current Conditions

Attendees at Print Outlook 2002 heard from three highly regarded speakers who observe the printing industry on an ongoing basis.

Frank Romano, chairman of the Rochester Institute of Technology School of Printing Management and Sciences was the first observer to address the conference. Romano’s subject was *Can Traditional and Digital Printing Technologies Adapt to Current Economic and Market Conditions?*

Romano began by quipping, “When we are having problems, there is a natural inclination to work harder—at what is not working!”

He observed that while the printing industry has lost some business to electronic alternatives, this fact went unnoticed at first, because the industry did not sense that less business was available.

For the next two or three years, Romano presented the attendees with six current challenges:

- Continuing price competition;
- Threats from electronic media;
- Declining profits;
- Keeping up with technology;
- Hiring, training, and retraining;
- Revolutions in the way print buyers are doing business.

He observed that the last challenge may be the most critical on the list.

According to Romano, a big problem is that print is essentially undifferentiable—thus the basis of competition is price. Moreover, he said, ready substitutions exist in many cases: After the anthrax scare,

some newspapers refused to accept letters to the editor on paper—and relied on e-mail only.

In response to his six challenges, Romano cited six traditional solutions: increase prices; decrease costs; increase volume; increase productivity; change products, markets, customers; and extend asset use. Of these, only the fifth—**change products, markets, customers**—has much prospect of yielding any beneficial results, Romano said.

According to Romano, four levels of digitization are redefining and reshaping print:

First, print manufacturing is digital. Lithography still dominates, but new digital printing systems offer viable alternatives. Direct-to approaches are changing the patterns of supplies consumption.

Second, business is now conducted in an e-commerce and online mode. Some sectors of print applications are experiencing slowing growth.

Third, digital communications alternatives to print are increasingly attractive to advertisers and publishers. Decisions to explore Internet and other digital alternatives weaken print growth patterns.

Finally, today’s younger generation is digitally based. This dynamic—and how print will be used and valued—will be a crucial factor in how print evolves and integrates with new media.

Industry Consolidation

Harris M. DeWese, chairman and CEO of Compass Capital Partners, discussed *The Status of Consolidation in the Printing Industry*. Reviewing printing industry mergers and acquisitions since 1989, DeWese described in detail the precipitous decline in consolida-

tion. Not only did total sales acquired fall from nearly \$5 billion in 1999 to just over \$800 million in 2001, total consideration paid fell from \$4 billion in 1999 to only about 700 million in 2001. Looked at from another standpoint, the actual number of deals fell from a high in 1998 of approximately 190 to perhaps 20 in 2001.

From 1997 to 1999, *DeWese* noted that buyers were involved with integration and housecleaning of companies they had acquired; now they are moving to a new phase in which they hope to capitalize on previous mistakes and make opportunistic purchases. He pointed out that buyers have not capitalized on their purchasing power, and that independent printers are suffering in the weak economy, especially since the terrorist attacks. Moreover, bankruptcies and liquidations are on the rise, and motivated sellers are plentiful even at the lower valuations of today's marketplace. *DeWese* said asset/account transactions (tuck-ins) are on the rise and leveraged buyouts are increasing.

DeWese told listeners that merger and acquisition activity can be expected to remain at low levels through 2002, although he expects a few consolidators to resume buying activity during the year. *DeWese* expects dramatic changes at the top of several consolidator organizations during the year, and anticipates buyers will make "smarter" purchases in the future, with no more valuation "craziness."

Forces to Be Reckoned With
Vincent Naselli, director of TrendWatch Graphic Arts, discussed *Forecast 2002: The TrendWatch Graphic Arts Perspective on the Forces to be Reckoned With in the Printing Industry*. Naselli began his presentation by describing a dramatic decline in mid- to late-2001, seen at both commercial printers

NPES Sponsors Annual Event

This article was prepared by industry consultant and observer Dennis Mason, and was abstracted from a comprehensive report on the event which he prepares annually. To purchase a copy of the complete report, or to inquire about his report for *Print Outlook 2003*, please contact Mason at (708)246-7786 or masonconsulting@juno.com. Dennis E. Mason is the president of Mason Consulting Inc., a firm specializing in marketing and technology issues in the graphic arts and electronic industries.

Every December industry business planners, editors, suppliers, and others gather in Washington, D.C., to discuss the status of the printing and publishing industries and the outlook for the coming year. The meeting—



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Print Outlook—is staged by NPES: The Association for Suppliers of Printing, Publishing and Converting Technologies, and is widely regarded as the premier venue for discussing the economics of the industry. *Print Outlook 2002*, held in early December 2001, was no exception, and because of the importance of the current economy to IPA members, *The Prepress Bulletin* is pleased to present this review of the recent meeting.

and prepress firms. According to a TrendWatch survey, 41 percent of printers and prepress shops indicated business was "poor, not as good as 2000," with another 11 percent characterizing the current environment as "very bad, much worse than 2000." Just over one-third indicated that business is "OK, about the same as 2000." Only 12 percent characterized business as "excellent, better than 2000."

Naselli noted that many businesses have failed since 1997, despite the fact that the downturn occurred only in the last few months. He said this indicates that more than just economics is involved.

Citing a recent TrendWatch survey of proofing methods, Naselli said the survey clearly shows that film based proofing is declining, and that more and more proofing is being done by moving PDF or Quark files

via e-mail, and using desktop inkjet color proofers. The survey results also seem to indicate a movement toward various soft proofing methods.

Sluggish Industry Recovery

Given the current economic situation, it should be no surprise that the economic presentations were the high point of *Print Outlook 2002*. Attendees at the meeting heard from three economists who concentrate on the industry.

Accounting for a Terrorist Attack
Michael K. Evans, president of the Evans Group, and consulting economist for NPES, began his presentation by noting that people often ask: "How can an econometric model be expected to account for a terrorist attack?" Evans said that last year, he did not anticipate the terrorist attacks. But now, since all economists are admitting we are in a

recession, the question is. "Would we have had a recession were it not for the September 11 attacks?" Evans said that after September 11, it became necessary to restart the post-recession clock. Focusing on economic history, he said, "We have always found that some single event sets off a recession. Then, layoffs follow, and then still further events. Finally, the Federal Reserve eases monetary policy."

Evans predicted the recovery will begin at mid-2002. He noted that while some economists predict an immediate recovery, their rationale involves a strong October 2001 driven primarily by new car sales. But, Evans said, October 2001 was still below August 2001 levels. He predicted that by the end of 2002, the U.S. unemployment rate could reach 7 percent. He noted, however, that by overall gross domestic product measures, this is not severe. The annual rate of decline will be 1.25 percent, he predicted, making this a relatively mild recession—somewhat less severe than the last one, ten years ago.

Evans pointed out that his mild recession scenario does not apply to the printing industry. Already in this recession, profits have declined much more rapidly than would be typical. Many companies have already taken huge writeoffs. He predicted that the recovery will be sluggish—especially in the areas of equipment purchases, employment, and advertising expenses. This means that the very things that are most important to the printing industry are a problem.

Not Just Another Recession

Andrew Paparozzi—director of the Economic Research Center at the National Association for Printing Leadership (NAPL) and a perennial favorite of the Print Outlook crowd—began his presentation by observing that three critical issues

now face the printing industry. The first, he said, lies in the relationship between print and the economy. Paparozzi said that we are now in a deep recession, which began long before September 11. He forecasts an upturn beginning in mid-2002, however, with good growth by the end of the year, and then rapid growth in 2003.

The second critical issue, according to Paparozzi, is the structural change occurring in the printing industry. Commenting that "This is not just another recession," he observed that we are seeing far too much change for that to be the case. The single biggest challenge to printers, he said, is not how to weather the recession, but how to ensure that short term decisions do not affect long term competitiveness.

The third critical issue is historic opportunity. Asking whether print is a growth industry, Paparozzi cautioned attendees, that when answering the question, to look beyond a cyclical contraction in the economy and ad spending. He sees immense opportunity for printers who recognize they are in the communications business and that communication is changing profoundly.

Moving to a discussion of print sales and the economy, Paparozzi said that printing sales are down 9.2 percent since August 2001, and down 3.1 percent since January 2001. Declines have been seen for five consecutive months and eight of the first ten months in 2001. According to Paparozzi, this is occurring across all business segments, and across North America. "This recession," he said, "is not only deeper than the last, but it is broader. And it may well be longer."

Print Market Languishes

Ronnie H. Davis, chief economist at Printing Industries of America, opened his presentation by stating

that print is no longer the most common medium. He noted that printers now do lots of different things, and that nonprint services at printers are growing much faster than actual print.

Examining the consequences of the September 11 attacks, Davis said at printers he polls, sales were down by 17 percent in September, for a \$2 billion sales loss (1.5 percent) for that month. He said 40 percent of printers reported declines of 20 percent or more, and three-fourth of printers report "severe or moderate negative growth." Most printers believe that from six to 12 months may be required for stability, and Davis concurred.

Focusing on how print buyers plan to change their print purchases in 2002, Davis said more than 47 percent of those polled reported no planned changes; 40 percent indicated plans to delay purchases, and only 2 percent indicated their print purchases would increase.

Looking at the future, Davis said he was expecting a smooth recovery until September 11. Now, however, he sees the economy languishing until the fourth quarter 2002, with subsequent strong growth in 2003. Print markets, however, cannot be expected to recover as robustly.

Davis sees similarities between the current recession and the one in 1990 and 1991. Ten years ago, the decline in print sales lagged the economic decline by two calendar quarters, but the decline in print sales lasted five calendar quarters while the general economic decline lasted only three. This time, Davis projected, print sales will fall slightly more than the general economy and will gain slightly less in the recovery. He indicated this recession may be a bit worse than the last recession, as advertisers change how they reach out to customers. **IPA**